

**SOUTH CAROLINA
PROCUREMENT REVIEW PANEL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 10, 2008

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Procurement Review Panel
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Procurement Review Panel (the Panel), solely to assist you in evaluating the performance of the Panel for the fiscal year ended June 30, 2007, in the areas addressed. The Panel's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$90 – general fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the Panel, and were paid in conformity with State laws and regulations, and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$3,400 – general fund and \$100 - earmarked fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Travel Voucher in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Operating Transfers and Appropriation Transfers**

- We inspected selected recorded operating transfers and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures and State regulations.

We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Panel to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. Our finding as a result of these procedures is presented in the Duplicate Accounting Document Numbers in the Accountant's Comments section of this report.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Panel for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Panel's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Panel's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Panel's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliation in the Accountant's Comments section of this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Panel's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2007, prepared by the Panel and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in the Authorized Attorney Fees and Compensated Absences Closing Package in the Accountant's Comments section of this report.

9. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Panel resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Panel had taken corrective action.

We found no exceptions as a result of these procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Procurement Review Panel and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

TRAVEL VOUCHER

We noted the following errors on one of the 25 disbursement vouchers tested. We found that the person completing a travel voucher used an incorrect mileage rate to calculate the mileage reimbursement and charged meal reimbursement to an incorrect object code. The person completing the travel voucher calculated the mileage reimbursement using a 34.5 cent reimbursement rate instead of the allowable 44.5 cent rate. In addition, meal reimbursement was charged to object code 0520 – reportable meals instead of object code 0501 – non-reportable meals. The errors were not detected while processing the travel voucher.

Section 72.26.J. of the 2006-07 appropriation Act sets the mileage reimbursement rate at 44.5 cents per mile and Section 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual defines expenditure object codes. An effective internal control system includes procedures to ensure the timely detection and correction of errors.

We recommend that Panel personnel carefully review travel documents prior to processing to ensure accuracy, completeness and compliance with applicable State laws, rules and regulations.

ATTORNEY FEES

Section 32.2 of the 2006-07 Appropriation Act states, “No department or agency of the State Government shall engage on a fee basis any attorney at law except upon written approval of the Attorney General and upon such fee as shall be approved by him.”

During our testing of the litigation closing package we discovered that the Panel had paid a law firm fees that exceeded the maximum compensation authorized by the State Attorney General. For fiscal year 2006-07 the maximum compensation authorized for the law firm by the State Attorney General was \$8,000. Total payments made to the firm as \$9,033.

We recommend that the Panel develop and implement procedures to ensure that rates paid to attorneys is in compliance with approved rates.

COMPENSATED ABSENCES CLOSING PACKAGE

The Panel did not use the correct annual leave accrual rate when completing the Compensated Absences Closing Package. The preparer of the closing package used the accrual rate for an employee with 10 years or less of State services instead of the accrual rate for an employee with 14 years of State service. As a result the compensated absences liability was understated \$340.

Section 19-709.02 of the State Human Resources Regulations governs employee leave earning rates.

We recommend the Panel develop and implement procedures to ensure compliance with State Human Resource regulations.

SECTION B – OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but are not considered violations of State Laws, Rules or Regulations.

DUPLICATE ACCOUNTING DOCUMENT NUMBERS

While testing the Panel's accounting records we noted that disbursement voucher numbers 88 and 89 were used multiple times. The agency used voucher number 88 three times and used voucher number 89 two time.

An effective internal control system includes procedures to prevent duplicate payments to vendors. One control that helps to detect such errors is the issuance of documents in numerical sequence. Issuing documents in numerical sequence provides an easy way to identify if a transaction has been processed twice or if a document is missing. However, this control is defeated if document numbers are used multiple times.

We recommend the Panel develop and implement procedures to prevent multiple use of document numbers.

RECONCILIATION

While testing the Panel's monthly expenditure reconciliations we noted that the accounting records contained a reconciling difference that was not corrected timely. The agency incorrectly recorded a social security withholding expenditure as a retirement expenditure. The agency identified the difference while reconciling its books to STARS but it did not record a correcting entry to its accounting records. As a result, retirement expenditures were overstated and social security withholding expenditures were understated on the agency's books.

An effective internal control system includes procedures to ensure the timely detection and correction of errors.

We recommend the Panel implement procedures to ensure that once detected, errors will be corrected in a timely manner.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Procurement Review Panel for the fiscal year ended June 30, 2006, and dated May 21, 2007. We determined that the Panel has taken adequate corrective action on each of the findings except for Compensated Absences Closing Package.

MANAGEMENT'S RESPONSE

South Carolina Procurement Review Panel

HON. CARL G. OEHMIG, III
HON. MARK HARTLEY
HON. WILLIE D. FRANKS
VICE CHAIRMAN

SHERRY COPELAND
BUSINESS MANAGER

SOLOMON BLATT BUILDING
1105 PENDLETON STREET, SUITE 203
COLUMBIA, SOUTH CAROLINA 29201
(803) 734-0660
FAX (803) 734-1427

HON. MARK W. BAKKER
HON. BEVERLY GADSON-BIRCH
HON. CSM ROSVELT MARTAIN

CHRISTIE M. EMANUEL
ATTORNEY



HON. J. PHILLIP HODGES, JR.
CHAIRMAN

July 9, 2008

Ms. Sue Moss
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Ms. Moss,

I have reviewed the preliminary draft copy of agreed upon procedures to the accounting records of the Procurement Review Panel and authorize release of the report.

If you have any questions, I can be reached at (843)524-8880.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Hodges", written over a horizontal line.

Phil Hodges, Chairman
Procurement Review Panel

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